

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Public Employees
Deferred Compensation Plan
State of Louisiana
Baton Rouge, Louisiana

July 18, 2001



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**General Purpose Financial Statements
and Independent Auditor's Reports
As of December 31, 2000**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

July 18, 2001

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**

General Purpose Financial Statements
and Independent Auditor's Reports
As of December 31, 2000

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July 3, 2001

Independent Auditor's Report
on the Financial Statements

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION COMMISSION
LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the accompanying statement of net assets available for benefits of the Louisiana Public Employees Deferred Compensation Plan as of December 31, 2000, and the related statement of changes in net assets available for benefits for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Louisiana Public Employees Deferred Compensation Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Government Guaranteed Fund IV, an investment product managed by Great-West Life & Annuity Insurance Company, which represents 22.3% of the total assets of the Louisiana Public Employees Deferred Compensation Plan Pension Trust Fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Government Guaranteed Fund IV, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

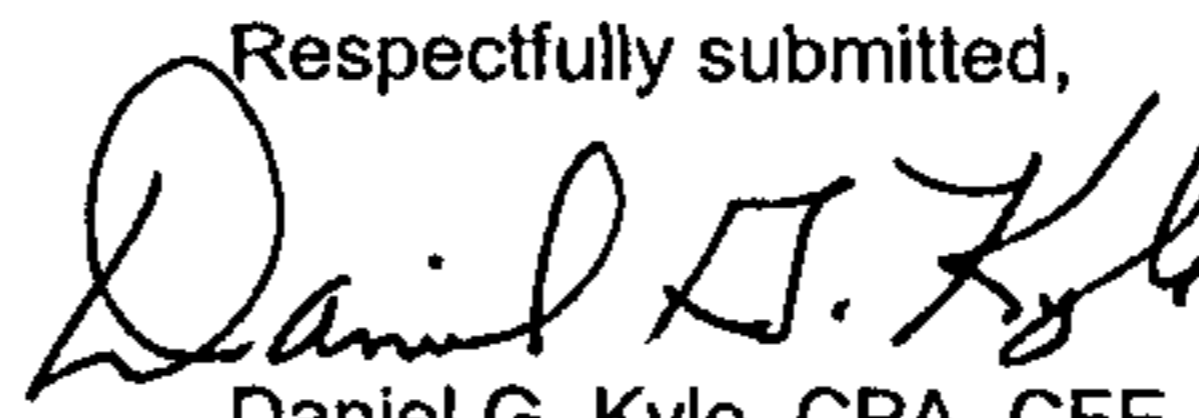
In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Louisiana Public Employees Deferred Compensation Plan as of December 31, 2000, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LEGISLATIVE AUDITOR

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION COMMISSION
LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Audit Report, December 31, 2000**

As discussed in note 5 to the financial statements, the Louisiana Public Employees Deferred Compensation Plan changed its method of reporting from an expendable trust fund to a pension trust fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2001, on our consideration of the Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

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[DEF COMP00]

Statement A

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**

**Statement of Net Assets Available for Benefits
December 31, 2000**

ASSETS

Cash (note 2)	\$314,439
Investments (note 3)	418,491,850
Cash surrender value of life insurance (note 3)	1,000,245
Contributions receivable	924,308
Due from plan administrator (note 7)	22,180

TOTAL ASSETS

420,753,022

LIABILITIES

Accounts payable	314,439
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NET ASSETS AVAILABLE FOR BENEFITS

\$420,438,583

The accompanying notes are an integral part of this statement.

Statement B

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**

**Statement of Changes in Net Assets Available for Benefits
For the Year Ended December 31, 2000**

ADDITIONS TO ASSETS

Contributions	\$52,298,823
Investment income	<u>(30,256,268)</u>
Total Additions	<u>22,042,555</u>

DEDUCTIONS FROM ASSETS

Administrative fees (note 7)	2,271,917
Benefit payments	19,604,706
Other administrative expenses (note 11)	<u>40,964</u>
Total Deductions	<u>21,917,587</u>

INCREASE IN ASSETS

124,968

NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR

420,313,615

NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR

\$420,438,583

The accompanying notes are an integral part of this statement.

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**

Notes to the Financial Statements
As of December 31, 2000

INTRODUCTION

As required by Louisiana Revised Statutes (R.S.) 42:1301-1308, the Louisiana Public Employees Deferred Compensation Plan (the "Plan") is supervised by the Louisiana Public Employees Deferred Compensation Commission, a political subdivision of the State of Louisiana within the executive branch of government. The commission is composed of seven board members who serve without compensation. The Plan was established to allow employees and independent contractors of the state to voluntarily elect to contribute a portion of their compensation into the Plan for the purpose of deferring the payment of federal and state income taxes on the contributions until such time as they are withdrawn by the participants. At December 31, 2000, there are approximately 28,890 participants in the Plan.

On August 20, 1986, the commission selected Great-West Life & Annuity Insurance Company as the plan administrator for a term of three years beginning on January 1, 1987, and had extended the contract through December 31, 1995. On June 19, 1995, the commission selected, through a bid process, Great-West Life & Annuity Insurance Company as the plan administrator for a term of three years beginning on January 1, 1996. On October 20, 1998, the commission exercised the first of two options to extend this contract for three years beginning on January 1, 1999. The commission has no employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the Louisiana Public Employees Deferred Compensation Plan as a related organization of the State of Louisiana. Although four of the seven board members of the Plan are elected or appointed officials of the State of Louisiana, the state is not financially accountable for the Plan.

The accompanying financial statements present information only as to the balances of the Louisiana Public Employees Deferred Compensation Plan, a related organization of the State of Louisiana. Annually, the State of Louisiana issues general purpose financial statements which disclose the Plan as a related organization of the state. The general purpose financial statements are audited by the Louisiana Legislative Auditor.

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)**

C. FUND ACCOUNTING

The Louisiana Public Employees Deferred Compensation Plan uses a pension trust fund to report on its financial position. The pension trust fund accounts for the receipt of contributions and the payment of benefits to participants. Benefits are funded through employee contributions and investment income on these contributions.

D. BASIS OF ACCOUNTING

Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements. The financial statements of the Plan are accounted for using the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recognized when incurred. The Plan uses the following practices in recognizing revenues and expenses:

Contributions

Contributions are recognized in the period when the compensation used to calculate the contributions is reported on Internal Revenue Service (IRS) Form W-2.

Investment Income

Investment income is accrued as earned, net of applicable investment management fees.

Plan Expenses

Investment management fees are netted daily from investment income and, therefore, are not a liability of the Plan at December 31, 2000.

E. CASH AND INVESTMENTS

Cash includes demand deposits. Under state law, the Plan may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The plan administrator is authorized to invest in various investment products, including mutual funds, United States Treasury bills or notes, life insurance, fixed or variable annuities, and other investments approved by the commission.

Investments in the fixed earnings and variable earnings options are valued at the fixed earnings rates or variable unit values as reported by the investment carriers, which approximates fair value. These values represent contributions received plus investment

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)**

income earned to date less applicable charges and amounts withdrawn. Purchases and sales of fixed and variable earnings investments are recorded on the trade date.

2. CASH

At December 31, 2000, the Plan has cash in demand deposits totaling \$314,439. The commission has directed that the deposits of the Plan in excess of federal insurance be secured by the pledge of securities owned by the fiscal agent banks. Deposit balances (bank balances) of \$741,058 at December 31, 2000, are fully secured by federal deposit insurance (GASB Category 1).

3. INVESTMENTS

Investments of \$418,491,850, as presented on Statement A, are valued at fair value. The Plan maintains investments with several product companies offering different types of investment options. The following itemizes the various product companies, the carrying value of the investments at December 31, 2000, the valuation method used in determining the carrying value, and the fair value of investments at December 31, 2000:

<u>Product/Company Investment Options</u>	<u>Valuation Method</u>	<u>Carrying Value at December 31, 2000</u>	<u>Fair Value at December 31, 2000</u>
Investments not categorized:			
Great-West Life & Annuity Insurance Company:			
Insurance contracts - fixed annuity	Fair value	\$61,327,972	\$61,327,972
Maxim Series Fund - mutual fund	Fair value	147,668,114	147,668,114
American Century Investors Fund - mutual funds	Fair value	62,477,496	62,477,496
Fidelity Advisor Growth Opportunities Fund - mutual fund	Fair value	12,340,485	12,340,485
Janus Funds - mutual funds	Fair value	26,069,920	26,069,920
Berger Small Cap Value Investors Fund - mutual fund	Fair value	705,813	705,813
INVESCO Dynamics Fund - mutual fund	Fair value	11,554,117	11,554,117
MFS Massachusetts Investors Growth Stock A Fund - mutual fund	Fair value	845,189	845,189
RS Emerging Growth Fund - mutual fund	Fair value	1,041,776	1,041,776
Strong Capital Management Inc. Growth & Income Fund - mutual fund	Fair value	363,372	363,372
Total Great-West Life & Annuity Insurance Company		324,394,254	324,394,254
Government Guaranteed Fund IV - United States government obligations	(1)	94,030,514	94,030,514
Commercial Life Insurance Company - annuity	Fair value	67,082	67,082
Total Investments		<u>\$418,491,850</u>	<u>\$418,491,850</u>

(1) Short-term investments of \$2.3 million were valued at amortized costs while the remaining balance of \$91,730,514 was valued by independent pricing services (fair value).

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

The Plan also has an investment in life insurance with Reliance Standard Life Insurance Company. This investment is valued at the cash surrender value of the life insurance policies, which is \$1,000,245 at December 31, 2000.

4. PLAN RESTRICTIONS

The deferred compensation plan is authorized under Section 457 of the Internal Revenue Code. Amounts deferred by participants are limited to the lesser of \$8,000 or 33 1/3% of the participants' includible compensation. Any amounts deferred are not subject to federal or state income tax withholdings nor are they includible as gross income until actually paid or otherwise made available to the participant. Of the 206 state agencies, offices, boards, commissions, colleges, and universities participating in the Plan as of December 31, 2000, three contribute an employer's match to certain employees' contributions limited to 6.2% of the employees' compensation. Contributions by these three employers for the year ended December 31, 2000, totaled \$990,985.

Participants of the Plan may withdraw funds from the Plan only upon retirement or disability as determined in accordance with retirement laws of the state, termination of employment with the state, or financial hardship as approved by the Plan's hardship committee. Upon retirement or disability, participants may select various benefit options, including lump sum payments and periodic payments for a designated term that is not in excess of the life expectancy of the participant or the joint and last survivor life expectancy of the participant and his or her spouse.

It is the opinion of the state's legal counsel, the Louisiana Attorney General, that the state has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. Of the \$420,438,583 in the Plan at December 31, 2000, \$381,385,156 is applicable to the State of Louisiana, while the remaining \$39,053,427 represents the assets of other governmental jurisdictions participating in the Plan.

As of April 1, 1987, the Government Securities Fund, which is included within the Government Guaranteed Fund IV, was closed to new Plan participants. Participants joining the Plan after this date are restricted to the Great-West Life investment options.

5. CHANGE IN ACCOUNTING PRINCIPLE

In the previous year, the Plan was reported as an expendable trust fund. Governmental Accounting Standards Board (GASB) Statement No. 32 requires that deferred compensation plans adopted under the provisions of Internal Revenue Code Section 457 be reported as expendable trust funds if they are reported in the sponsor's financial statements. Because the Plan is considered a related organization of the State of Louisiana, the Plan is not reported in the sponsor's financial statements. Therefore, the Plan's financial statements have been changed to reflect the accounting principles of a pension trust fund. This change had no effect on the overall financial position of the Plan.

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

6. INVESTMENT INCOME

The annual rate of interest credited to participant accounts on investments with the various product companies for the year ended December 31, 2000, is as follows:

<u>Product/Company</u>	<u>Product</u>	<u>Interest Rate</u>
Government Securities Fund	Various investments:	
	January - March	5.55%
	April - June	5.80%
	July - September	5.70%
	October - December	5.70%
Great-West Life & Annuity Insurance Company - Guaranteed Fund	Fixed annuity:	
	January - March	5.51%
	April - June	5.60%
	July - September	5.60%
	October - December	5.60%

The Government Securities Fund is invested solely in the Government Guaranteed Fund IV. The Great-West Life & Annuity Insurance Company - Guaranteed Fund is invested partially in the Government Guaranteed Fund IV and in Great-West Life & Annuity Insurance Company insurance contracts. Investment income for the Government Guaranteed Fund IV is reported at net, less the management and insurance wrapper fees disclosed in note 9.

Investment income for the Maxim Series Funds, American Century Investors Funds, Fidelity Advisor Growth Opportunities Fund, Janus Funds, Berger Small Cap Value Investors Fund, INVESCO Dynamics Fund, MFS Massachusetts Investors Growth Stock A Fund, RS Emerging Growth Fund, and Strong Capital Management Inc. Growth & Income Fund are not expressed as a percentage because earnings result from gains or losses arising from investment transactions and fluctuations in fair value of the applicable investments.

7. ADMINISTRATIVE FEES

Effective January 1, 1999, the contract between the commission and Great-West Life & Annuity Insurance Company (GWLA) was amended to reduce administrative fees from .85% to .55% of assets in the Government Guaranteed Fund IV and all Great-West Life and Annuity funds that are calculated and deducted daily on a pro rata basis. The contract was also amended to further reduce the administrative fees of .55% to .45% on any portion of participant account balances that exceed \$50,000 at the end of the calendar year. The excess fees collected (.10%) are refunded to qualifying participant accounts. These refunds are posted on the day after the quarter ends. Qualifying participant accounts were refunded \$78,184 during the year for the first three quarters of 2000, based on individual participant balances on the last day of the quarter. Qualifying participants were refunded \$22,180 in the first quarter of 2001 based on

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

balances at the end of the fourth quarter, December 31, 2000. This amount is reported on Statement A as a receivable (due from plan administrator) at December 31, 2000. During the year ended December 31, 2000, net administrative fees of \$2,271,917 were paid to Great-West Life & Annuity Insurance Company.

8. RELATED PARTY TRANSACTIONS

In addition to acting in the capacity of plan administrator of the Louisiana Public Employees Deferred Compensation Plan, Great-West Life Assurance Company, through its wholly-owned subsidiary, Great-West Life & Annuity Insurance Company, offers fixed annuity and mutual fund products to Plan participants. At December 31, 2000, investments in these products represent 99.4% of total Plan assets. Of this figure, 85.4% represents monies held in separate asset accounts, which are not subject to the general creditors of Great-West Life & Annuity Insurance Company.

9. GOVERNMENT GUARANTEED FUND IV

In June 1994, the commission entered into an agreement for the Great-West Life & Annuity Insurance Company to provide management advisory services for the Government Guaranteed Fund IV. Effective January 1, 1999, the annual fee for these services include a .12% fund management fee and a .22% insurance wrapper fee on investments in the fund to be paid to the administrator at the end of each quarter on a pro rata basis. The insurance wrapper guarantees that each Government Guaranteed Fund IV participant will receive the full book value of his/her account upon transfer and/or distribution from the Plan. During the year ended December 31, 2000, Great-West Life & Annuity Insurance Company charged management and insurance wrapper fees of \$287,977.

At December 31, 2000, the participant account balances, which comprise the Government Guaranteed Fund IV, total \$92,655,268. The fair value of the net assets of the Government Guaranteed Fund IV as of December 31, 2000, is \$94,030,514. Participant distributions are based on the amount of their account balance, whereas distributions as a result of termination of the group annuity contract are based on net assets attributable to the contract and can be made to the plan through (1) transfer of the underlying securities and any remaining cash balance or (2) transfer of the cash balance after sale of the fund's securities.

10. LITIGATION

There is no pending litigation at December 31, 2000.

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**
Notes to the Financial Statements (Concluded)

11. OTHER ADMINISTRATIVE EXPENSES

The Louisiana Public Employees Deferred Compensation Commission maintains a commission activity account that is included within the pension trust fund balances shown on Statement A. The balance of this commission activity account at December 31, 2000 is \$68,920. Of the administrative fees charged to Plan participants as detailed in note 7, .01% is retained in the commission activity account to fund commission expenses. Commission expenses for the year ended December 31, 2000, totaled \$40,964, and are reported as other administrative expenses on Statement B.

12. CHANGES IN INVESTMENT PRODUCTS

During the year ended December 31, 2000, the commission elected to make the following new investment options available effective July 17, 2000: American Century International Growth Fund, RS Emerging Growth Fund, Berger Small Cap Value Fund, MFS Massachusetts Investors Growth Fund A, Strong Growth and Income Fund, and Janus Flexible Income Fund.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws and regulations and on internal control as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



OFFICE OF
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July 3, 2001

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of the Financial Statements
Performed in Accordance With *Government Auditing Standards*

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION COMMISSION
LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the financial statements of the Louisiana Public Employees Deferred Compensation Plan, as of and for the year ended December 31, 2000, and have issued our report thereon dated July 3, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Louisiana Public Employees Deferred Compensation Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be

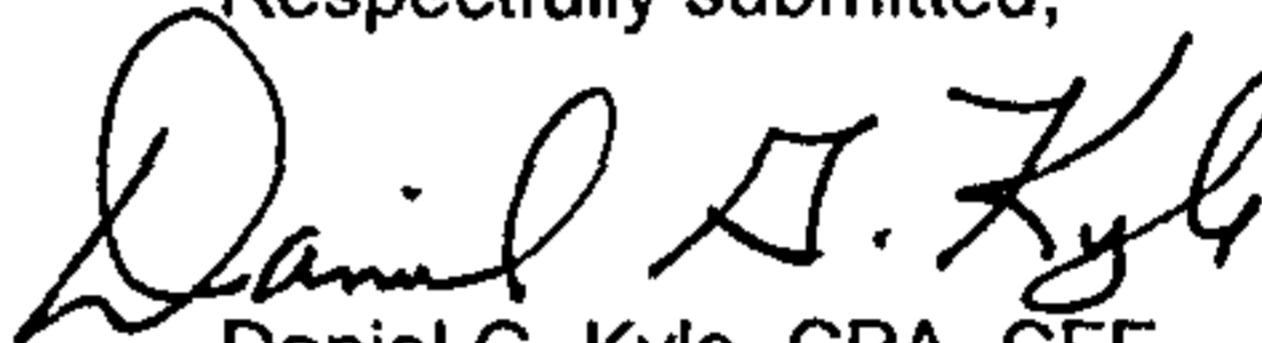
LEGISLATIVE AUDITOR

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION COMMISSION
LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
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Page 2**

material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Plan and its management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,


Daniel G. Kyle, CPA, CFE
Legislative Auditor

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[DEFCOMP00]